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·Leadership Series·

The New Organizational Operating System

STRATEGY ISN'T WHAT IT USED TO BE. THE FIVE-YEAR BUSINESS PLAN BASED ON A FEW KEY GOALS IS A THING OF THE PAST. TODAY, IS MANAGERS NEED MULTIFACETED STRATEGIC PLANS THAT CAN BE UPDATED EVERY FEW WEEKS OR MONTHS. ARE YOU PART OF THE PROBLEM OR PART OF THE SOLUTION?

Strategy no longer equates with long term. The economy is volatile, resources are severely constrained and competition is global. The pace and complexity of business have grown by orders of magnitude. Threats and windows of opportunity come and go in weeks or months. Businesses have had to learn to be dynamic and capable of numerous simultaneous initiatives. Strategy can no longer be planned years in advance.

This fundamental business change demands an equally dramatic change in the role of management, information systems management included. The executive who attempts to determine strategy and personally manage its implementation quickly becomes a bottleneck. A command-and-control-oriented "foreman" cannot hope to handle the diversity of challenges the organization faces.

The CIO as foreman

Consider the management style of the chief information officer at a high-tech equipment manufacturing company. The company had grown rapidly into worldwide markets, and its aging data processing systems couldn't handle the increased demands for throughput, flexibility and integration. The CIO determined that a complete revamp of all the legacy applications was warranted.

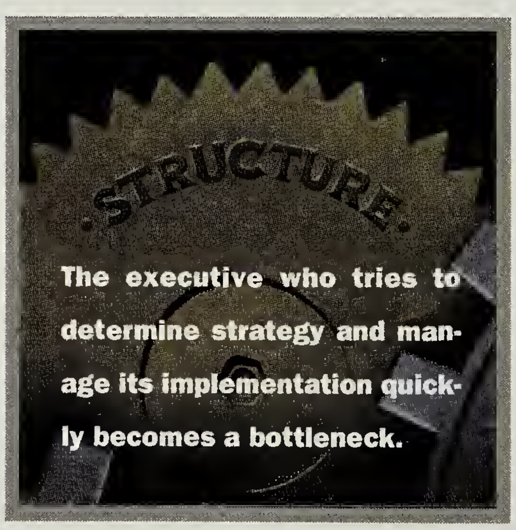
So the CIO committed the IS organization to an aggressive multiyear plan. He acquired a complex multiple-application client/server package, and the IS department embarked on its worldwide rollout.

Then the problems began.

Problem 1: Missed deadlines. The IS department couldn't deliver the project on schedule. The time estimate for the project was based solely on the CIO's knowledge of project management. It didn't benefit from his staff's much deeper understanding of the legacy applications that had to be converted, or take into account other commitments — such as keeping the current business running — or the staff's abilities and learning curves.

Problem 2: Poor management. The CIO devoted most of his time to managing the project rather than improving the organization's ability to manage projects.

With his time limitations, he couldn't look after every detail. The project was too big and complex for one person to manage, no matter how bright that person may be.



Problem 3: Missed opportunities. The IS department did little besides keep the business running and implement the package. The CIO was the only channel for identifying new projects, so virtually no effort was put into discovering "golden apples," or well-focused tools to help key executives succeed with their business strategies. The entire department focused on administrative applications, so they missed potentially high-payoff opportunities and many client executives felt ignored.

Manager vs. leader

This CIO may have been a decision maker, but he was not a leader. He ignored the extensive knowledge in the organization, thinking that he knew better than his staff. And since everything had to funnel through him, he became the constraint. Meanwhile, he did nothing to ensure that the organization was able to implement his decisions. When this CIO was asked to leave, the company inherited an IS function no more capable of delivering strategic value than it had been when the CIO arrived.

The model of the executive as foreman may be obsolete, but many

Illustrations by Eric Bowman

managers still manage this way. The result is wasted time, talent and opportunities.

IS needs leaders, not managers. Managing is the time spent supervising people and doing the day-to-day work of the organization; leadership is the time spent improving the way the organization operates.

Empowerment, that hackneyed term that gets a lot of lip service but very little respect, is at the core of good leadership. But if empowerment means anarchy, organizations will fail. Empowerment cannot occur unless management direction is replaced with other coordination and control mechanisms.

The organizational environment can be designed to send signals that guide everyone in their work. By "programming" the organization, leaders can subtly influence every decision, every day, without disempowering and micromanaging people.

With every bright mind engaged, a well-designed organization can be highly responsive on many fronts.

Visionary leadership

The CIO at a large petrochemical firm — let's call him Bill Smith — provides a positive example of leadership. Bill manages a reliable, cost-effective IS organization, and midlevel business managers throughout the corporation have been reasonably satisfied with its services.

But about three years ago, Bill saw trouble on the horizon. Senior executives did not view IS as strategic; they were grumbling about costs and lack of responsiveness, and some were proposing decentralization and outsourcing.

Meanwhile, IS staff were overworked and underappreciated and had virtually no time to learn new technologies and skills. IS provided only limited guidance on architectural standards. Furthermore, the department was failing to recover its costs through chargebacks, a risky proposition in a corporation that was downsizing.

Bill took action with the help of his senior IS management team. They interviewed key business-unit managers about their concerns with the IS department and surveyed IS staff about departmental problems.

The team then met in a series of workshops. In the first workshop, they discussed visionary expectations

of the department and assessed the gaps in their ability to meet these expectations.

In the next workshop, they analyzed all the issues raised by clients and staff members and their own assessment of gaps. They found four major areas of concern:

- Poor relations with clients.
- More work than they could handle.
- A lack of technology innovation.
- Little leadership on technology architecture.

In each case, the team analyzed root causes.

For "poor relations with clients," they traced its roots to a number of things:

1) **Culture.** The IS culture didn't include the practice of forming clear contracts, leading to misunderstandings over the scope of projects. And because there was no internal consultancy, no one was available to review all the business that the client was doing with the IS department.

2) **Structure.** The IS department's structure didn't include a full-time consultancy function that could serve as an account representative, so executive-level clients felt ignored.

3) **Methods.** Executives felt IS wasn't delivering systems that contributed in significant ways to the clients' business strategies. The management team recognized that its methods of identifying strategic opportunities (finding high-payoff applications for clients) and measuring benefits (documenting the payoff of

The Organizational OS

The five dimensions of organizational design can be likened to the organization's "operating system":

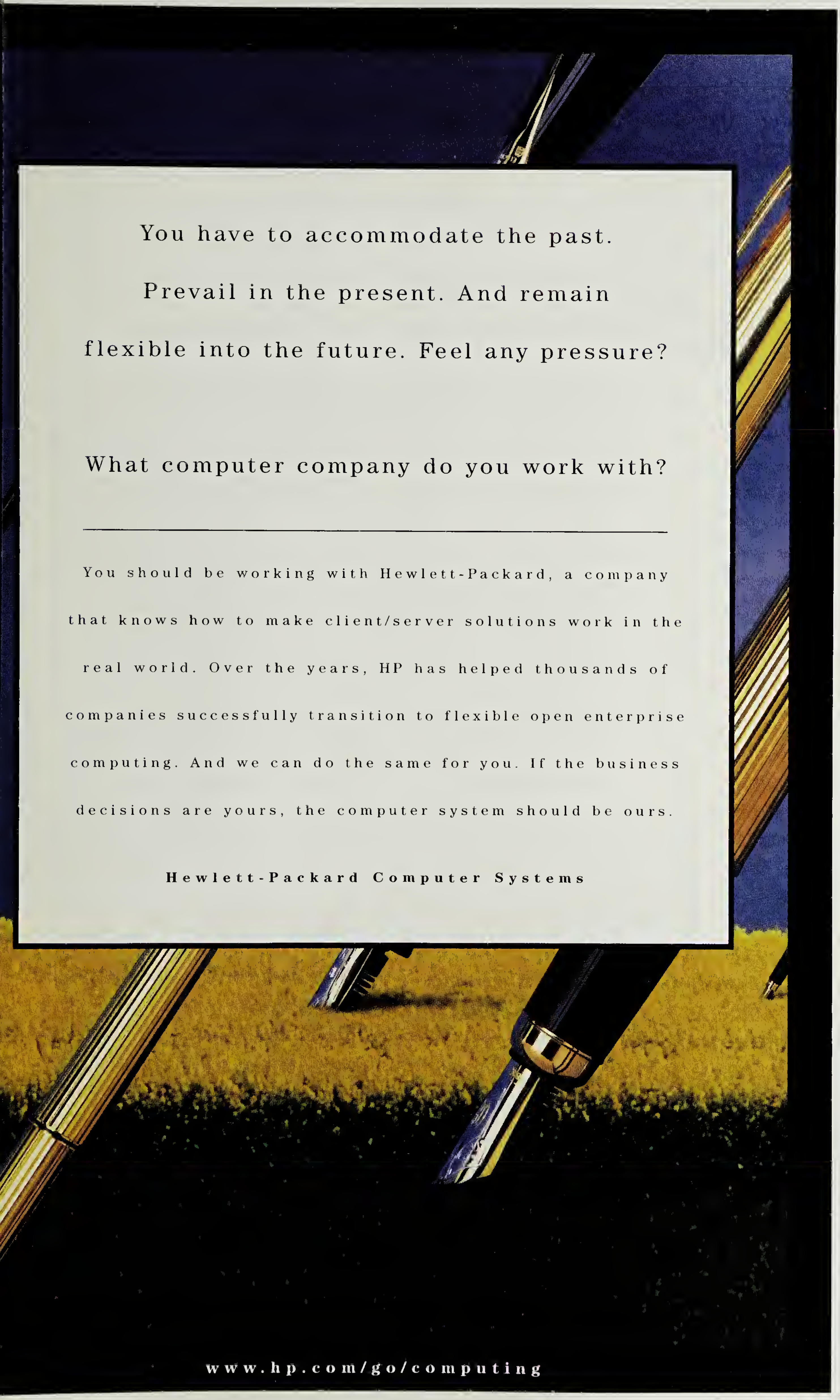
1. Culture: The behavioral patterns (habits and conventions) generally adopted in the organization. Indications of the need for cultural change include a lack of customer focus, entrepreneurship, empowerment, quality or teamwork.

2. Structure: The definition of jobs and the reporting hierarchy, as well as the processes that combine people into teams as work flows across organizational boundaries.

3. Methods: The procedures, methods and skills that people use, such as project management, customer service, entrepreneurship and marketing and business planning.

4. Internal economy: The budgeting, priority setting, chargeback and project-approval processes that determine how resources flow.

5. Metrics: The feedback loops that inform people about how they are doing, and the incentives for improving performance.


You have to accommodate the past. Prevail in the present. And remain flexible into the future. Feel any pressure?
What computer company do you work with?
You should be working with Hewlett-Packard, a company that knows how to make client/server solutions work in the real world. Over the years, HP has helped thousands of companies successfully transition to flexible open enterprise computing. And we can do the same for you. If the business decisions are yours, the computer system should be ours.
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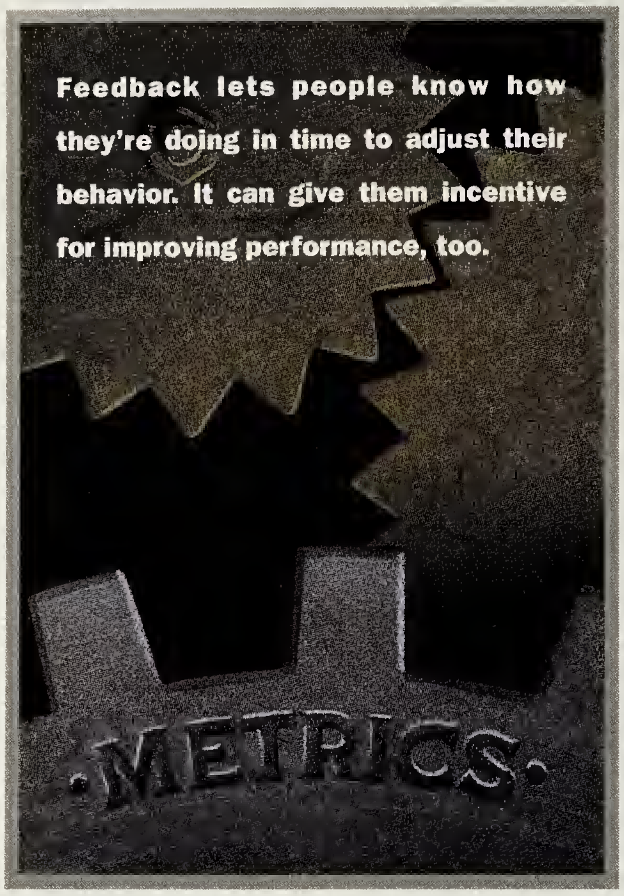

IS investments) were lacking. The team attributed these weak methods to the lack of an internal consulting group — people with time to learn and use such methods.

4) **Internal economy.** Complaints about costs, as well as pressures for decentralization and outsourcing, were partially rooted in the organization's internal economy, which didn't give individual business units control over IS expenditures. Even though IS charged for its services and clients decided what they would buy, prices were confusing, and there were many cross-subsidies.

5) **Metrics.** External benchmark metrics of costs were lacking, so IS couldn't prove that its services were indeed reasonably priced compared with other IS departments.

The second problem area, "more work than they could handle," resulted in overworked and underappreciated staff and the appearance of unresponsiveness.

Bill and his team traced the root cause to the IS department's internal economy, which failed to balance supply and demand. Prices didn't cover the full costs of producing some products, and supply wasn't allowed to "float" to meet demand. The lack of clear contracts (which is a culture problem) exacerbated this problem.

The "lack of technological innovation," the third problem area, was traced to the IS department's structure and the internal economy. As for structure, the same IS staff were responsible for both innovation and operations. While they were charged with developing new systems software and networking solutions, they were also required to "keep things stable," which squelched innovation.

As for the internal economy, schedules and prices assumed that IS employees would spend 80% of their time on clients' projects; that left little time for learning. Furthermore, there was no source of "equity" funding to finance research and development of new lines of business for the IS department.

And the root cause of the fourth problem, "little leadership on technology architecture," was attributed to the IS department's structure, which had no full-time technology architect or methods for dynamic architecture planning.

The action plan

Bill and his management team then developed an action plan that systemically addressed their concerns. The team committed to an ambitious transformational process that included the following components:

1) **Culture.** They crafted a set of principles of accepted behavior that could influence in real, actionable ways the day-to-day behavior and decision-making in the department. These principles included themes of entrepreneurship and customer focus. One example: "We offer our customers technical alternatives and inform them of the life-cycle costs of each, and then let them choose."

2) **Structure.** They restructured the department, beginning with a blank sheet of paper. The new structure includes a consultancy that is dedicated to client partnership and an architecture function that facilitates consensus on standards. The new

A Leadership Action Plan

There are six basic steps that leaders can take in order to build healthy IS organizations:

1. **Gather data** on clients' and employees' attitudes. You may find a mandate for change.
2. **Have your management** team think about what will be expected of the IS function in the future. It's probably a lot more than they're doing today.
3. **Analyze the root causes** of the concerns raised, using the organizational operating system detailed on page 3. The many symptoms recognized by clients, employees and management all probably point to the same few root causes.
4. **Don't build organizational** structures around personalities or politics; use a systematic principles-based approach applied to each of the dimensions so you don't have to reorganize again next year.
5. **Sequence corrective actions** into a rational, well-paced transformation.
6. **Communicate the symptoms** ("we heard you") and the action plan (not the management fad of the month, but an integrated, systemic program). You'll need patience and understanding from both clients and staff.

structure also separates innovation from operations functions to avoid conflicts of interest.

3) **Methods.** They trained the new consultants in leading-edge methods for identifying strategic opportunities and measuring benefits and trained the architects in dynamic, participative methods of architecture planning.

4) **Internal economy.** They identified product managers responsible for all the costs of a product line. These people began to redesign the internal economy to unravel pricing subsidies and clarify product revenues and costs, identifying many opportunities for streamlining.

5) **Metrics.** They benchmarked their costs (favorably) against competitors and advertised the results to client executives.

Bill recognizes that there is more to do, but the results so far are impressive.

Relationships with client executives have improved, and the IS consultants are now participating in the strategic planning of many business units. Top executives were impressed by the benchmarks, and pressures for outsourcing have dwindled. Clients understand the business value of architecture and are enthusiastically supporting standardization. Internal processes have been streamlined, overhead and direct costs have dropped by 15%, and the department is close to its break-even goal.

Identify opportunities for streamlining by clarifying product revenues and costs.

And while corporate strategies come and go, the IS organization has been stable. It mixes and matches its various entrepreneurs on project teams as needed, and consultants continually work with key clients to identify high-payoff opportunities for strategic systems.

In what is perhaps the highest praise, one business unit manager contracted with corporate IS to take back his local IS group, which was decentralized some years earlier because of frustration with the corporate IS department. Another staff function, finance, is now analyzing how to merge its decentralized IS staff into the corporate department.

One company trained staff in ways to identify strategic opportunities and measure benefits.

Success for the future

To survive in chaotic times, organizations must be dynamic. They must innovate, align with diverse clients' strategies, improve internal processes for project delivery and operations, and integrate their products. And they must do all these things at once, not one at a time as special projects. They also must do them all continually, not once a year as part of a plan.

Executives who try to control everything themselves are destined to fail — and are likely candidates for ulcers.

The proper role of an executive is that of leader, not foreman, focusing on issues of governance rather than technologies and projects.

Through systemic change, leaders build healthy, high-performance organizations that succeed — with or without them. ♦

Additional reading

♦ *Leadership and the Computer,* by Mary E. Boone, Prima Publishing, Rocklin, Calif., 1993.

♦ *The Heart of the Enterprise,* by Stafford Beer, John Wiley & Sons, Chichester, England, 1979.

♦ *Structure in Fives: Designing Effective Organizations,* by Henry Mintzberg, Prentice-Hall. Englewood Cliffs, N.J., 1983.

♦ "Rightsizing Angst," by Alice LaPlante, *Forbes* magazine, June 7, 1993.

♦ "A Sensible Approach to Outsourcing," by N. Dean Meyer, *Information Systems Management*, Vol. 11. No. 4, Auerbach Publications, fall 1994.

About the author

Author, lecturer and consultant N. **Dean Meyer** has implemented organizational transformations in dozens of diverse corporate and public-sector organizations. In 1982, Meyer founded NDMA, Inc. to focus exclusively on organizational issues. He is co-author of the book *The Information Edge*, with Mary E. Boone, and author of the new book *Structural Cybernetics: An Overview.* For more information, see NDMA's Web site at http://www.ndma.com or contact Meyer at ndma@ndma.com.

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